

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0135-01
Bill No.: HB 112
Subject: Property, Real and Personal, State Tax Commission, Taxation and Revenue -
Property
Type: Original
Date: January 28, 2011

Bill Summary: Would classify certain sawmills and planing mills as agricultural and horticultural property instead of commercial property for property taxation purposes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Blind Pension	\$0	(\$0 to(\$20,143)	(\$0 to \$20,143)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	(\$0 to(\$20,143)	(\$0 to \$20,143)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	(\$0 to \$4,028,600)	(\$0 to \$4,028,600)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed there would be no added cost to their organization as a result of this proposal. The proposal would reclassify sawmills and planing mills as agricultural property instead of commercial property, and lower the assessed valuation on those properties from 32% to 12% of total value.

According the US Census Bureau, County Business Patterns, there were 201 sawmills in Missouri in 2008, a total of 0.13% of all firms. BAP has no data on the value of sawmill properties. However, BAP notes that sawmills are a very small percentage of firms, and therefore of commercial property in Missouri. If levies remain unchanged, this proposal could lower local government and Blind Pension Fund revenues.

Officials from the **Department of Conservation**, the **Department of Revenue**, the **Saint Louis Public School District**, assume this proposal would have no fiscal impact on their organizations.

Officials from **Cass County** assume this proposal would have a negative fiscal impact on their organization from \$100 to unknown.

Officials from the **City of Kansas City** stated that there are very few operations of this nature in the city, and that the impact of this proposal on their organization would be a small unknown negative.

Officials from the **Department of Elementary and Secondary Education** (DESE) stated that this proposal would include saw mills and planing mills as agricultural property. DESE officials assume they are currently assessed as industrial and commercial, and this being the case there would be a reduction in the amount of property taxes paid by the owners of these mills since agriculture is assessed at 12% and commercial and industrial at 33.3%. This could have a negative fiscal impact on schools and other taxing authorities but it would be impossible to calculate.

Officials from the **State Tax Commission** assume this proposal would have no fiscal impact on their organization but could reduce local government revenues.

ASSUMPTION (continued)

In response to a similar proposal in the previous session (HCS/HB 1204, LR 3244-02, 2010) officials from the **Department of Conservation** provided information which indicated there are approximately 450 sawmills in Missouri with an aggregate value of \$327 million.

Oversight is not able to determine the current appraised or assessed valuation for these properties and will use the information provided by MDC. Oversight has calculated an estimated maximum fiscal impact for the implementation of this proposal as follows.

- A. Assessed valuation of sawmills at current 32% ratio -
 $(\$327,000,000 \times .32) = \$104,640,000$.
- B. Assessed valuation of sawmills at proposed 12% ratio -
 $(\$327,000,000 \times .12) = \$39,240,000$.
- C. Reduction of assessed valuation -
 $(\$104,640,000 - \$39,240,000) = \$65,400,000$.
- D. Reduction of local government tax revenue -
 $(\$65,400,000 / \$100 \times \$6.16 \text{ per } \$100 \text{ average tax rate}) = \$4,028,600$.

Oversight notes that the maximum calculated impact would occur only if local governments are unable to increase their tax levy rate to recover the loss of assessed valuation associated with the reclassification of these properties from commercial to agricultural. If local governments are able to increase their tax levy rate to recover those losses, this proposal would likely shift the property tax burden from sawmill owners to other commercial property owners, and to agricultural and residential property owners.

Oversight has reviewed the available information as to current levies and maximum authorized levies, and noted that certain local governments would have the ability to increase their levy rates beyond their current level. Oversight does not have any information as to which local governments would have sawmills or planing mills, nor do we have the information that would be required to determine which local governments would be able to increase their levy rates to recover the loss of assessed valuation associated with the change in classification of the sawmills and planing mills. For the purposes of this fiscal note, Oversight will indicate a range of fiscal impact from \$0 to the maximum calculated impact of \$4,028,600.

ASSUMPTION (continued)

Oversight assumes that revenue for the Blind Pension Fund would be reduced by about one-half of one percent of the reduction in local government revenues, or a range from \$0 to \$20,143.

Finally, Oversight assumes this proposal would become effective in August 2011 after the completion of 2011 assessments and would become effective for 2012 assessments, resulting in a loss of revenue starting with FY 2013.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
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BLIND PENSION FUND

<u>Revenue reduction</u> - change in classification of properties	<u>\$0</u>	<u>(\$0 to \$20,143)</u>	<u>(\$0 to \$20,143)</u>
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ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u>(\$0 to \$20,143)</u>	<u>(\$0 to \$20,143)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
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LOCAL GOVERNMENTS

<u>Revenue reduction</u> - change in classification of properties	<u>\$0</u>	<u>(\$0 to \$4,028,600)</u>	<u>(\$0 to \$4,028,600)</u>
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ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>(\$0 to \$4,028,600)</u>	<u>(\$0 to \$4,028,600)</u>
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FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which own or operate sawmills or planing mills.

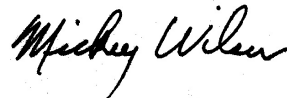
FISCAL DESCRIPTION

This proposal would change the assessment classification of sawmills and planing mills from commercial to agricultural, and reduce the assessed value of those properties from thirty-two percent of appraised value to twelve percent of appraised value.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Conservation
Department of Elementary and Secondary Education
Department of Revenue
State Tax Commission
Cass County
City of Kansas City
Saint Louis Public School District



Mickey Wilson, CPA
Director
January 28, 2011